

20. **SHOULD THE COMMISSION USE SOME EXISTING MODEL TO DETERMINE THE DEGREE TO WHICH A SCHOOL IS DISADVANTAGED (E.G., TITLE I OR THE NATIONAL SCHOOL LUNCH PROGRAM)? WHICH ONE? WHAT, IF ANY, MODIFICATIONS SHOULD THE COMMISSION MAKE TO THAT MODEL?**
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Ameritech has no comment on this question, except to say that the relative degree to which a school may be "disadvantaged" in an economic sense does not appear to be relevant under the Act.

21. **SHOULD THE COMMISSION USE A SLIDING SCALE APPROACH (I.E., ALONG A CONTINUUM OF NEED) OR A STEP APPROACH? (E.G., THE LIFELINE ASSISTANCE PROGRAM OR THE NATIONAL SCHOOL LUNCH PROGRAM) TO ALLOCATE ANY ADDITIONAL CONSIDERATION GIVEN TO SCHOOLS AND LIBRARIES LOCATED IN RURAL, INSULAR, HIGH-COST, AND ECONOMICALLY DISADVANTAGED AREAS?**
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See answer to Question 19.

22. **SHOULD SEPARATE FUNDING MECHANISMS BE ESTABLISHED FOR SCHOOLS AND LIBRARIES AND FOR RURAL HEALTH CARE PROVIDERS?**
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It is not clear why it would be necessary or desirable to establish separate funding mechanisms, but it would be helpful to maintain separate accounting for these programs in order to give the Commission the opportunity to phase-out one or the other should that be reasonable to do in the future.

**23. ARE THE COST ESTIMATES CONTAINED IN THE MCKINSEY REPORT AND NII KICKSTART INITIATIVE AN ACCURATE FUNDING ESTIMATE FOR THE DISCOUNT PROVISIONS FOR SCHOOLS AND LIBRARIES, ASSUMING THAT TARIFFED RATES ARE USED AS THE BASE PRICES?**

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Ameritech has not had an opportunity to study the McKinsey report and Kickstart Initiative in sufficient detail to determine whether the funding estimates contained therein are accurate or reasonable. It appears that this report is the only study that has been conducted using tariff rates as the basis for the funding estimate. The study was conducted using 1994 data and assumed the deployment of technology in schools at that time as the starting point for the study. The study also assumed specific technologies (e.g., ISDN) as the basis for connection to the schools. Since the time of the study, a large number of the nation's schools have implemented technology solutions that were not present at the time of the McKinsey study, e.g. connections to the Internet. Therefore, before any discount program is implemented on the basis of the McKinsey study, the study would have to be updated to include the current state of technology in the schools, and the universal service definition ultimately adopted by the Commission.

Ameritech has estimated the funding requirements implicit in the McKinsey report under several scenarios. Those data are shown on Attachments A-1, A-2, B-1, B-2 and C. These data are provided simply to assist the Commission in understanding the order of magnitude involved in such an undertaking.

24. **ARE THERE OTHER COST ESTIMATES AVAILABLE THAT CAN SERVE AS THE BASIS FOR ESTABLISHING A FUNDING ESTIMATE FOR THE DISCOUNT PROVISIONS APPLICABLE TO SCHOOLS AND LIBRARIES AND TO RURAL HEALTH CARE PROVIDERS?**

McKinsey & Company identified several models and cost estimates from other studies in its report. Aside from those examples, Ameritech is not aware of any studies that have been conducted on this subject.

25. **ARE THERE ANY SPECIFIC COST ESTIMATES THAT ADDRESS THE DISCOUNT FUNDING ESTIMATES FOR ELIGIBLE PRIVATE SCHOOLS?**

It is Ameritech's understanding that none of the studies cited by McKinsey & Company, nor the McKinsey study itself, includes funding estimates for eligible private schools.

## **HIGH COST FUND**

### **GENERAL QUESTIONS**

26. **IF THE EXISTING HIGH-COST SUPPORT MECHANISM REMAINS IN PLACE (ON EITHER A PERMANENT OR TEMPORARY BASIS), WHAT MODIFICATIONS, IF ANY, ARE REQUIRED TO COMPLY WITH THE TELECOMMUNICATIONS ACT OF 1996?**

Ameritech explained the deficiencies of current high-cost support mechanism in its initial and reply comments on the NPRM. In addition, and in order to comply with the Act, the Commission must take steps to ensure that the high-cost support mechanism is made more competitively neutral. For example, the Commission should require all telecommunications providers to contribute to the high-cost fund and must not limit eligibility to only those carriers of a certain size.

27. **IF THE HIGH-COST SUPPORT SYSTEM IS KEPT IN PLACE FOR RURAL AREAS, HOW SHOULD IT BE MODIFIED TO TARGET THE FUND BETTER AND CONSISTENTLY WITH THE TELECOMMUNICATIONS ACT OF 1996?**

As Ameritech detailed in its initial and reply comments to the NPRM, the Commission should adopt an "affordability benchmark rate" whereby eligible local exchange carriers would get universal service support when their costs for "core" services exceed the affordability benchmark rate for the difference between (a) the benchmark rate and their actual cost for core

services, or (b) their actual rate and their actual cost for "core" services, whichever is less.

**28. WHAT ARE THE POTENTIAL ADVANTAGES AND DISADVANTAGES OF BASING THE PAYMENTS TO COMPETITIVE CARRIERS ON THE BOOK COSTS OF THE INCUMBENT LOCAL EXCHANGE CARRIER OPERATING IN THE SAME SERVICE AREA?**

If a new local exchange carrier bears the same obligation as the incumbent carrier for high cost areas, then a methodology for determining the level of high cost support must be chosen. For example, each carrier could present its own cost estimates in the context of a bidding process and the lowest bid determines the level of support. Or the Commission could adopt a proxy model, assuming the merits could be demonstrated on the record. But, a new local exchange carrier should not receive support based on the book costs of the incumbent because they bear no relationship to the new carrier's costs.

**29. SHOULD PRICE CAP COMPANIES BE ELIGIBLE FOR HIGH-COST SUPPORT, AND IF NOT, HOW WOULD THE EXCLUSION OF PRICE CAP CARRIERS BE CONSISTENT WITH THE PROVISIONS OF SECTION 214(a) OF THE COMMUNICATIONS ACT? IN THE ALTERNATIVE, SHOULD HIGH-COST SUPPORT BE STRUCTURED DIFFERENTLY FOR PRICE CAP CARRIERS THAN FOR OTHER CARRIERS?**

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Price cap carriers should remain eligible for universal service support. This is required in order to have competitive neutrality in the administration

of a high cost fund and to comply with the definition of an "eligible carrier" under the Act. The cost characteristics of serving an area relative to what is affordable, is what should determine eligibility for high cost support for an area, regardless of the size, identity or price cap regulation of the carrier serving the area.

Moreover, it is the nature of the obligations imposed on and accepted by a carrier serving a high cost area which should govern the support that such a carrier should receive. As long as the obligations are the same, the high cost support fund does not need to be structured differently just because the carrier in question may be regulated under price caps as opposed to revenue requirements.

30. IF PRICE CAP COMPANIES ARE NOT ELIGIBLE FOR SUPPORT OR RECEIVE HIGH-COST SUPPORT ON A DIFFERENT BASIS THAN OTHER CARRIERS, WHAT SHOULD BE THE DEFINITION OF A "PRICE CAP" COMPANY? WOULD COMPANIES PARTICIPATING IN A STATE, BUT NOT A FEDERAL, PRICE CAP PLAN BE DEEMED PRICE CAP COMPANIES? SHOULD THERE BE A DISTINCTION BETWEEN CARRIERS OPERATING UNDER PRICE CAPS AND CARRIERS THAT HAVE AGREED, FOR A SPECIFIED PERIOD OF TIME, TO LIMIT INCREASES IN SOME OR ALL RATES AS PART OF A "SOCIAL CONTRACT" REGULATORY APPROACH?
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See answer to Question 29.

31. IF A BIFURCATED PLAN THAT WOULD ALLOW THE USE OF BOOK COSTS (INSTEAD OF PROXY COSTS) WERE USED FOR RURAL COMPANIES, HOW SHOULD RURAL COMPANIES BE DEFINED?
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Ameritech believes that there should not be a bifurcated plan between "rural" and other companies. Support should be based on the characteristics of the area served and the obligations imposed on the carrier, not the identity or size of the carrier serving the area.

32. IF SUCH A BIFURCATED APPROACH IS USED, SHOULD THOSE CARRIERS INITIALLY ALLOWED TO USE BOOK COSTS EVENTUALLY TRANSITION TO A PROXY SYSTEM OR A SYSTEM OF COMPETITIVE BIDDING? IF THESE COMPANIES ARE TRANSITIONED FROM BOOK COSTS, HOW LONG SHOULD THE TRANSITION BE? WHAT WOULD BE THE BASIS FOR HIGH-COST ASSISTANCE TO COMPETITORS UNDER A BIFURCATED APPROACH, BOTH INITIALLY AND DURING A TRANSITION PERIOD?
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See answer to Question 31.

33. IF A PROXY MODEL IS USED, SHOULD CARRIERS SERVING AREAS WITH SUBSCRIPTION BELOW A CERTAIN LEVEL CONTINUE TO RECEIVE ASSISTANCE AT LEVELS CURRENTLY PRODUCED UNDER THE HCF AND DEM WEIGHTING SUBSIDIES?

No. The current high cost fund and Dial Equipment Minute ("DEM") weighting subsidies should be eliminated upon the implementation of a new high cost fund pursuant to the Act.

#### PROXY MODELS

34. **WHAT, IF ANY, PROGRAMS (IN ADDITION TO THOSE AIMED AT HIGH-COST AREAS) ARE NEEDED TO ENSURE THAT INSULAR AREAS HAVE AFFORDABLE TELECOMMUNICATIONS SERVICE?**

None.

35. **US WEST HAS STATED THAT AN INDUSTRY TASK FORCE "COULD DEVELOP A FINAL MODEL PROCESS UTILIZING CONSENSUS MODEL ASSUMPTIONS AND INPUT DATA," US WEST COMMENTS AT 10. COMMENT ON US WEST'S STATEMENT, DISCUSSING POTENTIAL LEGAL ISSUES AND PRACTICAL CONSIDERATIONS IN LIGHT OF THE REQUIREMENT UNDER THE 1996 ACT THAT THE COMMISSION TAKE FINAL ACTION IN THIS PROCEEDING WITHIN SIX MONTHS OF THE JOINT'S BOARD'S RECOMMENDED DECISION.**

Ameritech is willing to cooperate in the public review and analysis of any proxy model which has been proposed by industry members, but it is not reasonable to expect companies to commit that such a review will be completed within six months. Companies that have not been involved in the development of this model will require some time to become familiar with it, and then some additional time to complete their analysis.

36. **WHAT PROPOSALS, IF ANY, HAVE BEEN CONSIDERED BY INTERESTED PARTIES TO HARMONIZE THE DIFFERENCES AMONG THE VARIOUS PROXY COST PROPOSALS? WHAT RESULTS HAVE BEEN ACHIEVED?**

The United States Telephone Association ("USTA") has convened an industry group to develop a "Best of Breed" among the various proxy models which have been proposed during the past year. The first meeting of that



group was held July 29-30, 1996 and no results have been achieved at this time.

**37. HOW DOES A PROXY MODEL DETERMINE COSTS FOR PROVIDING ONLY THE DEFINED UNIVERSAL SERVICE CORE SERVICES?**

It doesn't. A proxy model includes more than core services and it is not clear how the proxy models that have been identified to-date could be re-calibrated for purposes of core services only.

**38. HOW SHOULD A PROXY MODEL EVOLVE TO ACCOUNT FOR CHANGES IN THE DEFINITION OF CORE SERVICES OR IN THE TECHNICAL CAPABILITIES OF VARIOUS TYPES OF FACILITIES?**

The most that can be said at this time is that such updates must occur. How that evolution will occur will depend on the actual changes which are made in the definition of core services and in the technical capabilities available in the marketplace. But those modifications must be made as changes in the definition of core services and changes in technology occur.

**39. SHOULD A PROXY MODEL ACCOUNT FOR THE COST OF ACCESS TO ADVANCED TELECOMMUNICATIONS AND INFORMATION SERVICES, AS REFERENCED IN SECTION 254(b) OF THE ACT? IF SO, HOW SHOULD THIS OCCUR?**

This would be necessary only if the advanced telecommunications and information services are defined as "core" services.

**40. IF A PROXY MODEL IS USED, WHAT, IF ANY, MEASURES ARE NECESSARY TO ASSURE THAT URBAN RATES AND RATES IN RURAL, INSULAR, AND HIGH-COST AREAS ARE REASONABLY COMPARABLE, AS REQUIRED IN SECTION 254(B)(3) OF THE 1996 ACT.**

A proxy model is not used to establish rates; it is used to estimate costs. Rates are established by the appropriate regulatory commission and that determination will be made on the basis of a number of factors, including the requirements of the Act.

**41. HOW SHOULD SUPPORT BE CALCULATED FOR THOSE AREAS (E.G., INSULAR AREAS AND ALASKA) THAT ARE NOT INCLUDED UNDER THE PROXY MODEL?**

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There is no reason why those areas should not be included in a proxy model.

**42. WILL SUPPORT CALCULATED USING A PROXY MODEL PROVIDE SUFFICIENT INCENTIVE TO SUPPORT INFRASTRUCTURE DEVELOPMENT AND MAINTAIN QUALITY SERVICE?**

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The proxy model is used to estimate costs, not to set rates. These incentives will be based on the extent to which the corresponding costs will be recovered.

**43. SHOULD THERE BE RECOURSE FOR COMPANIES WHOSE BOOK COSTS ARE SUBSTANTIALLY ABOVE THE COSTS PROJECTED FOR THEM UNDER A PROXY MODEL? IF SO, UNDER WHAT CONDITIONS (FOR EXAMPLE, AT WHAT COST LEVELS ABOVE THE PROXY AMOUNT) SHOULD CARRIERS BE GRANTED A WAIVER ALLOWING ALTERNATIVE TREATMENT? WHAT STANDARDS SHOULD BE USED WHEN CONSIDERING SUCH REQUESTS?**

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If a proxy model is used at all, it should be used to identify high cost areas, and not used to allocate support. If the Commission adopts a proxy model to identify high cost areas, then the model should be used and there really should be no exceptions. Because the model would identify high cost

areas and would not be used to set rates, it is not apparent why there would be a need for any exceptions.

**44. HOW CAN A PROXY MODEL BE MODIFIED TO ACCOMMODATE TECHNOLOGICAL NEUTRALITY?**

The proxy models identified to-date are based on wireline technology; wireless technology should be included in the model as it is utilized.

**45. IS IT APPROPRIATE FOR A PROXY MODEL ADOPTED BY THE COMMISSION IN THIS PROCEEDING TO BE SUBJECT TO PROPRIETARY RESTRICTIONS, OR MUST SUCH A MODEL BE A PUBLIC DOCUMENT?**

It is difficult to understand how the Commission could adopt any proxy model unless and until its reasonableness was demonstrated on the public record. If a portion of the model is proprietary, then the appropriate confidentiality agreements can be executed and the confidential portion of the Commission's order can be redacted as appropriate. But, the public must have access to the model in the first instance.

**46. SHOULD A PROXY MODEL BE ADOPTED IF IT IS BASED ON PROPRIETARY DATA THAT MAY NOT BE AVAILABLE FOR PUBLIC REVIEW?**

See answer to Question 45.

47. IF IT IS DETERMINED THAT PROPRIETARY DATA SHOULD NOT BE EMPLOYED IN THE PROXY MODEL, ARE THERE ADEQUATE DATA PUBLICLY AVAILABLE ON CURRENT BOOK COSTS TO DEVELOP A PROXY MODEL? IF SO, IDENTIFY THE SOURCE(S) OF SUCH DATA.
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If book costs are going to be relied upon, there is no need for a proxy model. If a proxy model is going to be used, then public Census Bureau information may be available for that purpose.

48. SHOULD THE MATERIALITY AND POTENTIAL IMPORTANCE OF PROPRIETARY INFORMATION BE CONSIDERED IN EVALUATING THE VARIOUS MODELS?
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Yes, but see answer to Question 45.

### **COMPETITIVE BIDDING**

The questions in this sub-section concern the use of a competitive bidding process for purposes of quantifying the compensation to be made available for high cost funds. To date, GTE has presented the most comprehensive proposal for a competitive bidding process. However, it is essential to recognize that GTE's proposal is a competitive bidding process for purposes of selecting and quantifying support for local exchange carriers of last resort ("COLRs") in designated areas. Where such areas are also high cost areas, GTE's proposal subsumes support for high cost support so that the quantification role of the bidding process is to determine the amount of

**support needed to provide universal service for both COLR and high cost purposes.**

**In order to ensure that all customers in high cost areas are and remain served, carrier of last resort obligations (i.e. an obligation to serve the entire area with a barrier to exit) must be imposed on at least one carrier serving the high cost area. For the carrier bearing such obligations, its bid must include the costs associated with being a COLR for that area. To the extent that other carriers may provide universal service to customers in the same high cost area but without being a COLR, the bids submitted by such carriers will be lower (to reflect the lower financial risk and investment of having no exit barrier) than that of the carrier bearing the COLR designation. To then allow carriers that are non-COLRs to serve customers in high cost areas and to receive the same amount of high cost support as the carrier that is a COLR would threaten the ability of the COLR to continue to fulfill its COLR obligations. This is because the COLR is bearing a greater financial burden and risk associated with the COLR obligations but without being compensated for the additional burden. It is for this reason that GTE states that only COLRs should be eligible for high cost support under its proposal. Ameritech agrees with this conclusion.**

**Furthermore, continuous provision of service to high cost customers is inextricably intertwined with a restriction on exit from the marketplace. It is**

for this reason that Ameritech believes that GTE's bidding proposal is based on selecting COLRs, where the support for COLRs also happens to subsume the support needed for high costs when the designated area is a high cost area.

The only other alternative would be to pay the non-COLRs less high cost support than that paid to the COLR, where the difference reflects the increased financial burden and risk borne by the COLR. However, given the difficulty for carriers or regulators to quantify the necessary difference in compensation in a dynamic competitive environment, it may be preferable to have the bidding process based on eliciting bids in high cost areas for purposes of both committing to serve the entire area and with the same restriction on exit for all bidders. This is what the GTE plan proposes, and Ameritech agrees that this is a sustainable and possibly preferable approach.

Ameritech also believes that basing the competitive bidding process to include carrier of last resort obligations in high cost areas, and paying support only to those providers agreeing to be COLRs, is not inconsistent with Section 102 of the Telecommunications Act of 1996 (amending 47 U.S.C. Section 214) regarding carriers eligible for support. In determining whether a carrier is in fact complying with the requirement of 47 U.S.C. Section 214(e)(1)(A), the State commission (pursuant to sub-section (e)(2)) may find that assumption of carrier of last resort obligations is necessary in order for a carrier to have actually committed to serving the high cost area. This is consistent with how

high cost support has been administered in the past. Furthermore, for a state commission to not require a restriction to exit, as described earlier, is inconsistent with how service to high cost customers can in fact be ensured over time as is required under the Telecommunications Act of 1996 to make services available to all at just, reasonable, and affordable rates.

Ameritech, therefore, answers questions 49-53 based on the type of competitive bidding approach where the purpose of the bid is to include carrier of last resort obligations, such as that proposed by GTE. By these comments, Ameritech does not (at least at this time) support use of a competitive bidding process. However, if a bidding mechanism is to be used, Ameritech does note that GTE has properly posed some important issues that need to be considered in designing a bidding process, such as the issues discussed above. As to further implementation issues of the GTE plan, Ameritech has no comments at this time, as it is Ameritech's understanding that GTE intends to distribute a revised plan (which may significantly change various aspects of its previously distributed plan) in the very near future.

**49. HOW WOULD HIGH-COST PAYMENTS BE DETERMINED UNDER A SYSTEM OF COMPETITIVE BIDDING IN AREAS WITH NO COMPETITION?**

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If there is only one bidder to serve an area, then high cost payments should be based on that bid. And only the bidder should be eligible for



support if it is the only carrier taking on the obligations associated with serving a high cost area, e.g. serving the entire area, barrier to exit, etc.

**50. HOW SHOULD A BIDDING SYSTEM BE STRUCTURED IN ORDER TO PROVIDE INCENTIVES FOR CARRIERS TO COMPETE TO SUBMIT THE LOW BID FOR UNIVERSAL SERVICE SUPPORT?**

A couple of basic features should be included. Funding should be based on the lesser of actual cost minus existing rates and actual costs minus benchmark rates. All carriers receiving high cost support must take on the same obligations in serving the high cost area. And, the incumbent provider in a high cost area should be given a reasonable opportunity to be compensated for the obligations borne in high cost areas prior to the implementation of a new bidding process to determine prospective providers in high cost areas.

**51. WHAT, IF ANY, SAFEGUARDS SHOULD BE ADOPTED TO ENSURE THAT LARGE COMPANIES DO NOT BID EXCESSIVELY LOW TO DRIVE OUT COMPETITION?**

It is not clear what incentive a company would have to bid "excessively low" even if there was some reasonable way to determine when that has occurred. The only incentive that might exist is if a company could engage in cross-subsidization from other services. That opportunity does not exist for price cap companies and, if the Commission institutes the other pro-

competition provisions in the Act, the risk of cross-subsidization will be reduced overall.

**52. WHAT SAFEGUARDS SHOULD BE ADOPTED TO ENSURE ADEQUATE QUALITY OF SERVICE UNDER A SYSTEM OF COMPETITIVE BIDDING?**

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Minimum quality of service standards should be imposed and monitored as is already done in many state jurisdictions. These standards should be a part of any bidding process adopted by the Commission.

**53. HOW IS COLLUSION AVOIDED WHEN USING A COMPETITIVE BID?**

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In assessing this risk, the Commission must consider the incentives. A carrier has little incentive to purposely underbid in a predatory sense because if successful, the carrier would be required to provide service below cost. Even if there is some basis to engage in cross-subsidization (see answer to Question 51), it would be difficult for a carrier to sustain such a tactic. Moreover, since all telecommunications carriers pay into the universal service fund, then each carrier has an incentive to keep the total fund as small as possible. This will reduce the incentive carriers have to collude in a manner that increases the size of the fund. Finally, if a carrier was to be found guilty of collusion, the appropriate penalty should be imposed, e.g. fines, disqualification for future bids.

**54. SHOULD THE STRUCTURE OF THE AUCTION DIFFER IF THERE ARE FEW BIDDERS? IF SO, HOW?**

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The structure of the bidding process should not change simply because there are fewer bidders.

**55. HOW SHOULD THE COMMISSION DETERMINE THE SIZE OF THE AREAS WITHIN WHICH ELIGIBLE CARRIERS BID FOR UNIVERSAL SERVICE SUPPORT? WHAT IS THE OPTIMAL BASIS FOR DETERMINING THE SIZE OF THOSE AREAS, IN ORDER TO AVOID UNFAIR ADVANTAGE FOR EITHER THE INCUMBENT LOCAL EXCHANGE CARRIERS OR COMPETITIVE CARRIERS?**

The size of the area for eligibility purposes should be competitively neutral and bear a reasonable relationship to the way that telecommunications services are technically provided. Ameritech believes that the optimal basis for the size of a serving area is a wire center within a geographic area because that is the basis on which the network is engineered and costs are incurred.

**BENCHMARK COST MODEL (BCM)**

**56. HOW DO THE BOOK COSTS OF INCUMBENT LOCAL EXCHANGE CARRIERS COMPARE WITH THE CALCULATED PROXY COSTS OF THE BENCHMARK COST MODEL (BCM) FOR THE SAME AREAS?**

To the extent this analysis has been undertaken for Ameritech (and it has not been completed), the relationship is reasonably close. When discrepancies occur, it usually is the result of errors in the BCM. The model is most inaccurate when it comes to "outliers." Actual costs on a wire center basis are far superior to costs created on a proxy basis.

**57. SHOULD THE BCM BE MODIFIED TO INCLUDE NON-WIRELINE SERVICES? IF WIRELESS TECHNOLOGY PROVES LESS COSTLY THAN WIRELINE FACILITIES, SHOULD PROJECTED COSTS BE CAPPED AT THE LEVEL PREDICTED FOR USE OF WIRELESS TECHNOLOGY?**

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Ameritech continues to support the use of actual costs by wire center. If a company is utilizing non-wireline services then the BCM should allow them to be included. Ameritech does not support the arbitrary capping of the projected costs at the level predicted for wireless technology because it would be inconsistent with the use of actual costs.

**58. WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF USING A WIRE CENTER INSTEAD OF A CENSUS BLOCK GROUP AS THE APPROPRIATE GEOGRAPHIC AREA IN PROJECTING COSTS?**

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Wire centers have the advantage of being the basis on which networks are engineered and costs incurred. Use of wire centers generates results that are more exacting than any averaging method. Census Block Group data do not match up with the exchange areas served by a wire center and frequently

are incorrectly matched with the wrong wire center. Moreover, Census Block Group data are updated only every 10 years.

59. THE MAINE PUC AND SEVERAL OTHER STATE COMMISSIONS PROPOSED INCLUSION IN THE BCM OF THE COSTS OF CONNECTING EXCHANGES TO THE PUBLIC SWITCHED NETWORK THROUGH THE USE OF MICROWAVE, TRUNK, OR SATELLITE TECHNOLOGIES. THOSE COMMENTERS ALSO PROPOSED THE USE AN ADDITIONAL EXTRA-HIGH-COST VARIABLE FOR REMOTE AREAS NOT ACCESSIBLE BY ROAD. WHAT IS THE FEASIBILITY AND THE ADVISABILITY OF INCORPORATING THESE CHANGES INTO THE BCM?

It clearly is appropriate to allow the inclusion of additional high cost factors when utilizing the proxy models. At some point, however, the process produces a result which is already known: actual book costs.

60. THE NATIONAL CABLE TELEVISION ASSOCIATION PROPOSED A NUMBER OF MODIFICATIONS TO THE BCM RELATED TO SWITCHING COST, FILL FACTORS, DIGITAL LOOP CARRIER SUBSCRIBER EQUIPMENT, PENETRATION ASSUMPTIONS, DEPLOYMENT OF FIBER VERSUS COPPER TECHNOLOGY ASSUMPTIONS, AND SERVICE AREA INTERFACE COSTS. WHICH, IF ANY, OF THESE CHANGES WOULD BE FEASIBLE AND ADVISABLE TO INCORPORATE INTO THE BCM?

There are a variety of ways of dealing with NCTA's points. Ameritech believes that the use of actual costs of the switch should be used, and should be included in the BCM if that model is adopted after it is reviewed on the public record. Regarding the fill factor, it is reasonable that spare capacity be allocated across all services since all services benefit from that spare capacity.

Digital loop carrier book costs should be included; that will account for any discounts. Likewise, the actual book costs of plant between the wire center and the subscriber should be utilized.

**61. SHOULD THE SUPPORT CALCULATED USING THE BENCHMARK COST MODEL ALSO REFLECT SUBSCRIBER INCOME LEVELS, AS SUGGESTED BY THE PUERTO RICO TELEPHONE COMPANY IN ITS COMMENTS?**

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No. The concept of income is relevant for low-income assistance programs. For high cost support, income may be a factor in the overall development of an "affordability benchmark rate" as proposed by USTA and various other parties, including Ameritech. But income itself is not relevant with regard to the construction of a cost model, such as the Benchmark Cost Model.

**62. THE BCM APPEARS TO COMPARE UNSEPARATED COSTS, CALCULATED USING A PROXY METHODOLOGY, WITH A NATIONWIDE LOCAL BENCHMARK RATE. DOES USE OF THE BCM SUGGEST THAT THE COSTS CALCULATED BY THE MODEL WOULD BE RECOVERED ONLY THROUGH SERVICES INCLUDED IN THE BENCHMARK RATE? DOES THE BCM REQUIRE CHANGES TO EXISTING SEPARATIONS AND ACCESS CHARGE RULES? IS THE MODEL DESIGNED TO CHANGE AS THOSE RULES ARE CHANGED? DOES THE COMPARISON OF MODEL COSTS WITH A LOCAL RATE AFFORDABILITY BENCHMARK CREATE AN OPPORTUNITY FOR OVER-RECOVERY FROM UNIVERSAL SERVICE SUPPORT MECHANISMS?**

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The costs calculated in the BCM would be recovered through services included in the benchmark rate. Changes would be required in the Part 36

separations rules in Subpart F, paragraphs 36.601 through 36.641, and in Part 69, paragraphs 69.116 and 69.413. Changes in the BCM presumably would be made by the custodian of the model. Finally, if the model results exceed the local benchmark rate, then the carrier would be eligible for support; if results are less than the benchmark then no support would be permitted.

63. **IS IT FEASIBLE AND/OR ADVISABLE TO INTEGRATE THE GRID CELL STRUCTURE USED IN THE COST PROXY MODEL (CPM) PROPOSED BY PACIFIC TELESIS INTO THE BCM FOR IDENTIFYING TERRAIN AND POPULATION IN AREAS WHERE POPULATION DENSITY IS LOW?**

Terrain and density are important factors, but Ameritech has not had sufficient experience with the CPM and the BCM to comment on this question.

**COST PROXY MODEL PROPOSED BY PACIFIC TELESIS**

64. **CAN THE GRID CELL STRUCTURE USED IN THE CPM REASONABLY IDENTIFY POPULATION DISTRIBUTION IN SPARSELY-POPULATED AREAS?**

Ameritech has not had sufficient exposure to the CPM to comment on this question.

65. CAN THE CPM BE MODIFIED TO IDENTIFY TERRAIN AND SOIL TYPE BY GRID CELL?
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See answer to Question 64.

66. CAN THE CPM BE USED ON A NATIONWIDE BASIS TO ESTIMATE THE COST OF PROVIDING BASIC RESIDENTIAL SERVICE?
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Yes, it could be used and it is reasonable to assume that such use would produce results that will be different from actual book costs.

67. USING THE CPM, WHAT COSTS WOULD BE CALCULATED BY CENSUS BLOCK GROUP AND BY WIRE CENTER FOR SERVING A RURAL, HIGH-COST STATE (E.G., ARKANSAS)?
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See answer to Question 64.

68. IS THE CPM A SELF-CONTAINED MODEL, OR DOES IT RELY ON OTHER MODELS, AND IF SO, TO WHAT EXTENT?
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See answer to Question 64.

#### **SLC/CCLC**

69. IF A PORTION OF THE CCL CHARGE REPRESENTS A SUBSIDY TO SUPPORT UNIVERSAL SERVICE, WHAT IS THE TOTAL AMOUNT OF THE SUBSIDY? PLEASE PROVIDE SUPPORTING EVIDENCE TO SUBSTANTIATE SUCH ESTIMATES. SUPPORTING EVIDENCE SHOULD INDICATE THE COST METHODOLOGY USED TO ESTIMATE THE MAGNITUDE OF THE SUBSIDY (E.G., LONG-RUN INCREMENTAL, SHORT-RUN INCREMENTAL, FULLY-DISTRIBUTED).
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For Ameritech, of the total \$211M CCL revenue, \$55.9M is attributable to NECA Long Term Support Payments and \$144M is attributable to the Base Factor Portion ("BFP") Overflow.

BFP Overflow is caused by two things. First, under the Part 36 Separations Rules, loop costs are allocated to the interstate jurisdiction using a frozen factor of 25%. Actual interstate usage of the loop, for Ameritech, is much lower, varying from 11% to 14%. Second, the amount of interstate loop costs recovered from end users is based on the subscriber line charge ("SLC"). The SLC is capped at \$3.50 per month for residence and single line business customers and at \$6.00 for multi-line business customers. To the extent that these amounts are insufficient to recover the interstate loop costs, the BFP overflow results.

70. IF A PORTION OF THE CCL CHARGE REPRESENTS A CONTRIBUTION TO THE RECOVERY OF LOOP COSTS, PLEASE IDENTIFY AND DISCUSS ALTERNATIVES TO THE CCL CHARGE FOR RECOVERY OF THOSE COSTS FROM ALL INTERSTATE TELECOMMUNICATIONS SERVICE PROVIDERS (E.G., BULK BILLING, FLAT RATE/PER-LINE CHARGE).

The SLC could be increased as appropriate to allow for the elimination of BFP Overflow or bulk billing could be instituted in accordance with Ameritech's Customer First Waiver.